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AGENDA ITEM 5a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Self-Funded Health Plans First Quarter 2008
Financial Report

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Information Only

IV. INTRODUCTION:

This report is to provide the CalPERS Board of Administration (Board) with an update on the financial status for the six CalPERS self-funded Preferred Provider Organizations (PPOs) health plans for the calendar quarter ending March 31, 2008. This is the first quarter for the new plans, PERS Select basic and supplemental. The plans are included in this report, but with such a small amount of data the results are not very meaningful. The results will be monitored closely over the remainder of the year.

The overall financial position of the self-funded health plans remains strong. The medical and pharmacy claims 12 month cost trends have increased slightly for the first quarter of 2008 compared to the 2007 year. The ongoing positive financial results for the program assets provide assurance that the rates approved by the Board for the 2008 plan year were sufficient to fund benefits and to maintain adequate reserves.

V. ANALYSIS:

At the end of the first quarter of 2008, the overall combined loss ratio for the self-funded health plans was 95 percent (100 percent is break-even). This resulted in an overall underwriting gain of \$17.0 million for all six self-funded health plans. The first quarter produced better than expected results based upon the continuing lower-than-expected overall trend in the medical and pharmacy claims cost.

Assets above the actuarial reserve requirements for the first quarter 2008 were \$364 million. This increase was due to several factors, including better-than-expected claims cost trends, continuing strong rebates relating to the pharmacy contract, and investment returns.

The following attachments provide detailed financial and trend information:

Attachment 1

This attachment displays summary results for the first quarter 2007 and 2008 as well as the prior two years. The PERSCare and PERS Choice continue to show underwriting gains while the two self-funded Supplement to Medicare plans are showing a small loss. The two Select plans also are showing small losses.

The most notable development is that the 12-month rolling trend for pharmacy is continuing to show low increases in cost for all six self-funded health plans.

Attachment 2

This attachment presents the per-member-per-month (PMPM) medical and pharmacy claims costs for five quarters beginning with the fourth quarter of 2007.

The year-to-year (comparing 1st quarter 2007 to 1st quarter 2008) medical PMPM costs show expected increases for the four self-funded health plans with PERSCare Supplement to Medicare plan with a low of 6.1 percent and PERSCare Basic plan at a high of 12.4 percent.

The year-to-year (comparing 1st quarter 2007 to 1st quarter 2008) pharmacy claims are showing trends that are lower than expected. The PERSCare Supplement to Medicare plan shows an increase of 6.7 percent, while the other three self-funded health plans are showing an increase of 5.7 percent. Trends are claims cost only and do not include rebates.

Attachment 3

This attachment presents asset values, reserves and asset changes for the self-funded health plans.

As of March 31, 2008, total program assets (line 21) exceeded the actuarial reserve (line 23) by over \$364 million. The excess of assets over reserves increased by \$31 million for the first quarter, indicating that surplus reserves are being generated due to the lower-than-expected claims cost trends, continuing strong pharmacy rebates and investment returns. Overall the four established self-funded health plans' asset levels continue to be positive. The two new plans are currently showing a small deficit.

Attachment 4

This attachment highlights the relative strength of the assets compared to the actuarial reserve. The overall levels of the assets in the self-funded health plans remain positive and indicate that assets and reserves are adequate to cover program liabilities.

Attachment 5

This attachment shows the overall enrollment trends for the four self-funded health plans.

VI. STRATEGIC PLAN:

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

There is no cost associated with this item.

Gregory A. Franklin
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Attachments